Debt Ceiling Impasse in the US Senate. Stripping US Bonds of their AAA Rating? "US Treasury has only $35 Billion in Cash Left on Hand"

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Global Research, October 16, 2013
World Socialist Web Site

Region: USA
Theme: Global Economy

Senators Harry Reid and Mitch McConnell, leaders of the Democratic majority and Republican minority in the US Senate, restarted negotiations late Tuesday with the aim of announcing an agreement Wednesday to reopen the government and raise the nation's debt ceiling. The moves by the Senate came after the House of Representatives failed to vote on a debt proposal supported by the Republican leadership Tuesday.

The announcement that Senate leaders are close to a deal came after Fitch, the credit rating agency, said it had put a negative outlook on the US government's AAA debt rating, which could precede a downgrade. The rating agency wrote that, although it "continues to believe that the debt ceiling will be raised soon, the political brinkmanship and reduced financing flexibility could increase the risk of a US default."

At the time of the debt ceiling crisis of 2011, Standard & Poor's lowered the US debt rating. If Fitch proceeds to downgrade US debt, two of the three major rating agencies will have stripped US bonds of their AAA rating. As a result, some large institutional investors will legally be required to dispose of their holdings in US treasuries, with potentially destabilizing consequences for the US and international financial system.

Stocks fell after House Republicans failed to reach a deal Tuesday, with the Dow Jones Industrial Average down by 133 points. Interest rates on US treasury bills shot up 2.1 percentage points Tuesday, to 5.3 percent. Interest rates move in the opposite direction of bond prices.

The proposal under negotiation in the House would have increased the US debt limit through February 7, but funded the federal government only through December 15, significantly earlier than the Senate proposal. The proposal would have also deprived members of Congress and their staffs of existing health care subsidies.

The House plan included a two-year delay in the imposition of a tax on medical device manufacturers, an attempt to placate the most right-wing, "Tea Party" Republicans in the House, who insist that any bill to reopen the government and lift the debt ceiling contain measures limiting the Obama administration's health care overhaul.

The Senate proposal would raise the debt ceiling through February 7 and fund the government through January 15, according to congressional aides. Under its terms, the two parties would agree to a long-term deal on spending and taxation—centering on cuts in

Social Security and Medicare and a reduction corporate taxes—by December 13.

Even if the Senate votes to pass a bill on Wednesday, it is not guaranteed that the bill will be passed by the Republican-controlled House. House Speaker John Boehner was forced twice during the day to back away from proposals he had put forward due to opposition from Tea Party Republicans before he ultimately sent lawmakers home.

In discussions Tuesday, Paul Ryan, chairman of the House Budget Committee, told Republicans who rejected the proposal supported by the Republican leadership, "Look at where we are… Your 'no' vote has consequences."

These developments came as the US Treasury Department said it had only $35 billion in cash left on hand. Treasury Secretary Jack Lew has repeatedly warned that the US government will not be able to guarantee its ability to pay its bills past Thursday, although most commentators expect the government to remain solvent for some time afterward.

After Thursday, Fitch noted in its warning, "the Treasury would still have limited capacity to make payments," but would "be exposed to volatile revenue and expenditure flows."

The agency added, "The US risks being forced to incur widespread delays of payments to suppliers and employees, as well as Social Security payments to citizens—all of which would damage the perception of US sovereign creditworthiness and the economy."

Both the House and Senate proposals would keep government funding at levels dictated by the sequester budget cuts. Over the weekend, Republican Senate Minority Leader Mitch McConnell said that as a result of the sequester and other cuts: "Total federal spending has now gone down for two years in a row—the first time that's happened since the Korean War." He added that cuts currently in place for 2014 would result in "the most significant spending reduction in modern history."

For all the chaos surrounding the debt ceiling crisis, both parties are fundamentally agreed that spending on basic social services, including Medicare and Social Security, must be slashed dramatically.